DIRECT TESTIMONY OF
ANTHONY M. SANDONATO
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2020-125-E
IN RE: APPLICATION OF DOMINION ENERGY SOUTH CAROLINA, INCORPORATED FOR ADJUSTMENTS OF RATES AND CHARGES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Anthony Sandonato. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") in the Energy Operations Division as a Senior Regulatory Manager.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor of Science in Nuclear Engineering from North Carolina State University in 2011. Prior to my employment with ORS, I was employed as an analyst with a global professional, technology, and marketing service firm working with large investor-owned utilities on energy efficiency program design and implementation. I joined ORS in 2016, and, in October 2019, I was promoted to my current position in the Energy Operations Division.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION")?

A. Yes. I have previously testified before the Commission.

Q. WHAT IS THE MISSION OF ORS?

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

> [T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to set forth ORS's recommendations resulting from our examination and review of Dominion Energy South Carolina, Inc.'s ("DESC" or "Company") Application for Adjustment of Rates and Charges ("Application"). Specifically, I address the following adjustments included in the Company's Application:

- Adjustment No. 12 – Adjustment to fuel inventory;
- Adjustment No. 14 – Normalize twelve-month period ending December 31, 2019 ("Test Year") Power Purchases from South Carolina Generating Company, Inc. ("GENCO");
- Adjustment No. 27 – Amortize Capacity Purchases;
- Adjustment No. 29 – KapStone Charleston Kraft LLC ("KapStone") Gain;
- Adjustment No. 34 – Amortization of Columbia & Charleston Franchise Agreements;
- Adjustment No. 36 – Advance Meter Infrastructure ("AMI");
- Adjustment No. 37 – Local Business Offices; and
- Adjustment No. 40 – Projected Capital Spend.

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. The review to which I testify was performed by me or under my supervision.

Q. PLEASE DESCRIBE THE ADJUSTMENTS ABOUT WHICH YOU ARE TESTIFYING.

A. The following is a summary of the adjustments I reviewed:

<u>Company Adjustment No. 12 - Adjust Fuel Inventory</u>

This pro forma adjustment proposed by the Company decreases the actual coal inventory balance at the end of the Test Year to conform to the targeted policy level of inventory the Company expects to maintain going forward.

<u>Company Adjustment No. 14 - Normalize Test Year Power Purchases from GENCO</u>

Due to an April 28, 2020, Federal Energy Regulatory Commission ("FERC") approved modification to GENCO's formula rate attributed to tax reform, DESC's purchased power from GENCO is expected to be lower than Test Year levels going forward. In addition, the Company proposed to normalize Test Year purchased power expense to reflect the capitalization structure in effect at GENCO as of December 31, 2019.

<u>Company Adjustment No. 27 - Amortize Capacity Purchases</u>

Pursuant to Commission Order No. 2008-530, the Company has deferred certain charges for capacity purchases to meet customer and system needs from 2008 through 2018, which are not currently being recovered. By Order No. 2017-40, the Commission extended the deferral authorization through 2019. The Company proposes to amortize this deferral over a three-year period. After July 2020, the Company ceased an existing annual capacity deferral recorded pursuant to Commission Order No. 2010-471 due to the balance being fully amortized. Another capacity amortization deferral recorded pursuant to Commission Order No. 2013-649 will be fully amortized in February 2021. The removal of the purchased power expenses associated with the fully amortized deferral offsets the proposed amortization of the new deferral.

Company Adjustment No. 29 - KapStone Gain

On December 31, 2018, DESC sold an electric power generator, a 13.8/115 kV generator step-up transformer, and associated equipment and personal property to KapStone for $975,000. At the time of the sale, the assets had been fully depreciated by DESC. By letter order dated July 2, 2019, the FERC approved the Company's request to clear the gain from FERC Account 102 – Electric Plant Purchased or Sold and record the amount as a regulatory liability to preserve the gain.

Company Adjustment No. 34 - Amortization of Columbia & Charleston Franchise Agreements

Commission Order No. 2003-38 approved the amortization of deferred costs associated with the Company's franchise agreements with the cities of Columbia and Charleston. These amounts will be fully amortized in March 2021. The Company proposes to remove the Test Year amortization expense to reflect the fully amortized deferred costs.

Company Adjustment No. 36 - AMI

Commission Order No. 2019-622 authorized DESC to defer as a regulatory asset the incremental depreciation expense, property taxes and amortization of implementation costs of associated software incurred by DESC in connection with the installation of AMI for its retail electric customers. The Company proposes to amortize the balance of the regulatory asset over five years.

Company Adjustment No. 37 - Local Business Offices

In July 2020, The Company announced that five (5) business offices that were open pre-COVID-19 will remain closed permanently. The Company evaluated the experience of industry peers and confirmed that customers were taking advantage of other ways to do business with DESC. The Company states that the employees from these locations will be redeployed to various other departments to better serve customers.[1] This adjustment removes from Test Year expenses the Operations and Maintenance Expense ("O&M") and depreciation expense related to the closure.

Company Adjustment No. 40 - Projected Capital Spend

The Company updated additional Capital Spending through September 2020. This information was provided to ORS on October 16, 2020. Due to COVID-19 safety precautions, ORS did not conduct site visits to the various DESC locations to confirm all projects have been completed that were included in Adjustment No. 40 as is the typical ORS practice. ORS sent the Company an affidavit on November 6, 2020 requesting DESC confirm all projects included in the Adjustment had been Completed.

Q. PLEASE DETAIL YOUR REVIEW OF THE ADJUSTMENTS.

A. I reviewed the Company's testimony, supporting documentation, work papers, Application and DESC's responses to ORS discovery requests. I also reviewed relevant Orders, both issued by the Commission as well as the FERC, and historical performance data. For large Capital Projects in excess of $500,000, ORS reviewed the internally prepared documents containing cost benefit analyses of projects, the detailed scope and cost materials prepared internally, a comparison of the proposed versus actual cost, and the

[1] Direct Testimony of W. Keller Kissam p. 58

expected completion date versus the actual completion date. Additionally, ORS reviewed all internally prepared documents and cost benefit analysis used for the deployment of AMI.

Q. WHAT ARE YOUR RECOMMENDATIONS TO THE COMMISSION BASED ON YOUR REVIEW OF THE ADJUSTMENTS.

A. ORS recommends the Company change the amortization period of the AMI deferral to match the actual depreciation rates of the equipment installed. This will more closely align the amortization period of the deferral with the expected life of the installed items. This methodology is detailed in ORS witness Briseno's direct testimony and will change the amortization period to eight (8) years.

Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS TO THE COMMISSION?

A. Yes. ORS recommends the Company provide annual reports to the Commission and ORS that monitor and track all associated savings resulting from the newly installed AMI smart meters until the Company's next base rate proceeding. Additionally, ORS recommends that any incremental O&M expenses recorded in the AMI deferral be offset by the associated savings realized by the Company from AMI deployment. Moreover, the tracked savings should be subject to Commission and ORS review in a future proceeding.

Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, becomes available.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.